FINANCIAL STATEMENTS
of the Thrift Savings Fund — 1999 and 1998

THRIFT
SAVINGS
PLAN

ARTHUR ANDERSEN

Report of Independent Public Accountants

To the Executive Director of the
Federal Retirement Thrift Investment Board:

We have audited the accompanying statements of net assets available for benefits of the Thrift Savings Fund as of December 31, 1999 and 1998, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Federal Retirement Thrift Investment Board. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Thrift Savings Fund as of December 31, 1999 and 1998, and the changes in its net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Vienna, Virginia
March 2, 2000

THRIFT SAVINGS FUND

Statements of Net Assets Available for Plan Benefits as of December 31,

(Dollars in Thousands)

Assets	**1999**	**1998**
Investments, at market value		
U.S. Government Securities Investment Fund	**$30,561,680**	$27,882,863
Barclays Equity Index Fund	**56,908,740**	42,959,617
Barclays U.S. Debt Index Fund	**3,793,812**	3,874,152
Total investments	**91,264,232**	74,716,632
Receivables		
Participants' contributions	**219,421**	199,403
Employer's contributions	**103,530**	92,377
Participant loans	**3,061,288**	2,586,270
Accrued interest	**5,323**	–
Total receivables	**3,389,562**	2,878,050
Fixed assets		
Furniture, equipment, and leasehold improvements, net of accumulated depreciation and amortization of $3,389 in 1999 and $2,666 in 1998	**1,993**	1,421
Data processing software, net of accumulated amortization of $6,044 in 1999 and $6,032 in 1998	**33,485**	8,355
Total fixed assets	**35,478**	9,776
Other assets	**3,567**	388
Total assets	**94,692,839**	77,604,846
Liabilities		
Accrued payroll and benefits	**863**	858
Accounts payable	**37,261**	28,376
Due to Barclays for securities purchased	**–**	278,084
Deferred rent and lease credits	**880**	1,128
Total liabilities	**39,004**	308,446
Funds restricted for the purchase of fiduciary insurance	**(4,880)**	(4,744)
Net assets available for plan benefits	**$94,648,955**	$77,291,656

THRIFT SAVINGS FUND

Statements of Changes in Net Assets Available for Plan Benefits for the Years Ended December 31,

(Dollars in Thousands)

Additions to net assets	**1999**	**1998**
Investment income		
Net change in market value		
Barclays Equity Index Fund	**$8,888,589**	$8,496,333
Barclays U.S. Debt Index Fund	**(288,477)**	58,938
Earnings		
U.S. Government Securities Investment Fund	**1,699,493**	1,486,587
Barclays Equity Index Fund	**644,455**	539,979
Barclays U.S. Debt Index Fund	**255,731**	223,555
Less investment expenses	**(3,245)**	(3,016)
Net investment income	**11,196,546**	10,802,376
Contributions		
Participants	**5,692,221**	5,208,920
Employer	**2,684,610**	2,409,701
Total contributions	**8,376,831**	7,618,621
Interest income on participant loans	**167,231**	146,038
Total additions	**19,740,608**	18,567,035
Deductions from net assets		
Benefits paid to participants	**2,234,984**	1,850,087
Administrative expenses	**54,208**	50,406
Participant loans declared taxable distributions	**93,981**	78,342
Total deductions	**2,383,173**	1,978,835
Net increases	**17,357,435**	16,588,200
Funds restricted for the purchase of fiduciary insurance	**(136)**	(121)
	17,357,299	16,588,079
Net assets available for plan benefits		
Beginning of period	**77,291,656**	60,703,577
End of period	**$94,648,955**	$77,291,656

The accompanying notes are an integral part of these financial statements.

THRIFT SAVINGS FUND
Notes to Financial Statements
as of December 31, 1999

(1) PLAN DESCRIPTION

The following description is provided for general information purposes. Participants should refer to the *Summary of the Thrift Savings Plan for Federal Employees* and applicable legislation for more complete information.

The Thrift Savings Plan (the Plan) is a retirement savings and investment plan for Federal employees. It was authorized by the United States Congress in the Federal Employees' Retirement System Act of 1986 (FERSA). The Plan provides Federal employees with a savings and tax benefit similar to what many private corporations offer their employees. The Plan was primarily designed to allow employees who are participants of the Federal Employees' Retirement System (FERS) to supplement the FERS Basic Annuity benefit.

The Plan is administered by an independent Government agency, the Federal Retirement Thrift Investment Board (the Board), which is charged with operating the Plan prudently and solely in the interest of the participants and their beneficiaries. Assets of the Plan are maintained in the Thrift Savings Fund (the Fund).

Federal employees who are participants of FERS, the Civil Service Retirement System (CSRS), or equivalent retirement plans, as provided by statute, are eligible to join the Plan after completing a minimum service requirement of not more than 1 year. Generally, FERS employees are those employees hired on or after January 1, 1984, while CSRS employees are employees hired before January 1, 1984, who have not elected to convert to FERS. Each group has different rules that govern contribution rates. As of December 31, 1999, there were approximately 2.4 million participants in the Plan, with approximately 1.9 million contributing their own money.

The Plan is a defined contribution plan and, as such, specifies how much an employee may contribute and how much the employing agency must contribute to each FERS employee's account. FERS employees may contribute up to 10 percent of their basic pay each pay period, on a tax-deferred basis, and receive agency matching contributions on the first 5 percent, according to a formula prescribed by FERSA (5 U.S.C. § 8432(c)). CSRS employees may contribute up to 5 percent of their basic pay each pay period, on a tax-deferred basis, but the Government does not match any of this amount. For FERS employees, their employing agencies also contribute an agency automatic contribution equal to 1 percent of each employee's basic pay each pay period, as defined in FERSA (5 U.S.C. § 8401(4)). In accordance with the Internal Revenue Code, no participant could contribute more than $10,000 in 1999. This limit will increase to $10,500 in 2000.

FERSA established three investment funds: the Government Securities Investment Fund (G Fund), the Common Stock Index Investment Fund (C Fund), and the Fixed Income Investment Fund (F Fund). Participants may allocate any portion of their contributions among the three investment funds. Also, participants may reallocate their entire account balance among the three investment funds through the interfund transfer process. Participants can make an interfund transfer in any month without an annual limit.

Plan participants are immediately vested in all of their own contributions and attributable earnings. Participants are also immediately vested in any agency matching contributions made to their accounts and attributable earnings. In order to be vested in the agency automatic (1%) contributions, a FERS employee must have either 2 or 3 years of service as described in section 8432(g) of FERSA. FERS employees who are not vested and who separate from the Federal Government forfeit all agency automatic contributions and attributable earnings. These forfeited funds, which totaled $11,618,000 in 1999 and $10,770,000 in 1998, are used by the Fund to pay accrued administrative expenses. If the forfeited funds are not sufficient to meet all administrative expenses, earnings on investments are then expended.

Participants may apply for loans from their accounts. There are two types of TSP loans: general purpose and residential. General purpose loans can be obtained for any purpose, with a repayment period from 1 to 4 years. Residential loans can be obtained for the purpose of purchasing a primary residence, with a repayment period from 1 to 15 years. Participants may borrow only their own contributions and attributable earnings. The minimum loan amount is $1,000. The interest rate for loans is the G Fund rate at the time the loan application is received by the Board's record keeper. The rate is fixed at this level for the life of each loan.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting. The activity of the Fund is accounted for using the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when incurred.

B. Investments. As of, and during the period ended, December 31, 1999, investments of each investment fund were in the following:

The G Fund was invested in short-term nonmarketable U.S. Treasury securities specially issued to the Fund. All investments in the G Fund earned interest at a rate that is equal, by law, to the average of market rates of return on outstanding U.S. Treasury marketable securities with 4 or more years to maturity.

The C Fund was invested primarily in the Barclays Equity Index Fund, a commingled Standard & Poor's 500 stock index fund with $172.6 billion in assets as of December 31, 1999. The Equity Index Fund consisted of common stocks of all the companies represented in the Standard & Poor's 500 stock index. The C Fund also included temporary investments in the same securities held by the G Fund and certain other short-term securities pending purchase of shares in the Equity Index Fund and to cover liquidity needs, such as loans and withdrawals from the Plan.

The F Fund was invested primarily in the Barclays U.S. Debt Index Fund, a commingled fund tracking the Lehman Brothers U.S. Aggregate Index (LBA) which contains approximately 33 percent U.S. Treasury securities, 35 percent mortgage-backed securities, 23 percent investment-grade corporate securities, and 9 percent Federal agency securities. The mortgage-backed sector contains securities guaranteed by the Government National Mortgage Association, Fannie Mae, and the Federal Home Loan Mortgage Corporation, as well as commercial mortgage-backed securities. On December 31, 1999, the Barclays U.S. Debt Index Fund held 3,078 securities totaling $15.6 billion, with an average maturity of 9 years. Like the Equity Index Fund, the Barclays U.S. Debt Index Fund is passively managed, seeking to match the performance of the LBA. The F Fund, like the C Fund, also included investments in the same securities held by the G Fund and certain other short-term securities pending purchase of shares in the U.S. Debt Index Fund and for liquidity requirements.

All investments are stated at market value.

C. Fixed Assets. All fixed assets were recorded at historical cost. Assets with a useful life in excess of 1 year and a cost greater than $25,000 were capitalized and expensed over their useful life using the straight line method. The estimated useful lives are as follows:

Furniture and Equipment	3 to 10 years
Leasehold Improvements	10 years
Data Processing Software	3 years

D. Earnings Allocation. Net earnings were allocated to the participants' accounts monthly. The allocation process used was that described in regulations issued by the Executive Director on November 20, 1996.

E. Contributions Receivable. Contributions receivable were estimated as the amount of contributions recorded through the first 2 weeks of the month following the date of the financial statements.

F. Loans payable. Loans payable are a component of net assets available for plan benefits. In January 2000, approximately $107,838,000 will be disbursed from accounts of those who were participants of the Plan as of December 31, 1999.

G. Withdrawals Payable. Withdrawals payable are a component of net assets available for plan benefits. In January 2000, approximately $214,763,000 will be disbursed from accounts of those who were participants of the Plan as of December 31, 1999.

H. Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets available for plan benefits and additions to and deductions therefrom, as well as the disclosure of contingent assets and liabilities in these footnotes. Actual results could differ from those estimates.

I. Reclassifications. Certain 1998 amounts have been reclassified to conform to the 1999 presentation.

(3) INCOME TAX STATUS

FERSA (5 U.S.C. § 8440(a)(1)) states that the Plan shall be treated as a trust as described in section 401(a) of the Internal Revenue Code (Code) which is exempt from taxation under section 501(a) of the Code. This status was reaffirmed in the Tax Reform Act of 1986, Section 1147 (codified at I.R.C. § 7701(j)). It is not necessary for the Plan to apply for a determination letter since it is qualified by statute.

(4) COMMITMENTS

The Board has entered into Interagency Agreements with the Department of Agriculture's National Finance Center (NFC). Under the agreements, the NFC performs detailed record keeping of participant account balances (operations) and software development, and maintains a service office responsible for loan, withdrawal, and interfund transfer processing, as well as servicing employees who have left Federal service. This agreement may be canceled by the Board with 3 months notice or by the Department of Agriculture with 1 year notice. As of March 2, 2000, the NFC's fees for fiscal year 2000 are estimated to be $50,290,000.

On May 20, 1997, the Board entered into contracts with American Management Systems, Inc. and SunGard Employee Benefit Systems, a division of SunGard Business Systems Inc., for the design, development, and implementation of an automated daily valued record keeping system. Work commenced in 1997 and is expected to be completed in 2000. As of March 2, 2000, the total cost of the contracts is estimated to be $49,440,000, of which $34,326,000 has been incurred as of the same date.

The Board leases the office space it occupies in Washington, D.C., under an operating lease and a sublease. The operating lease ends in 2002, with an option to extend for one 5-year period. The sublease expires May 31, 2002. Monthly base rental payments under the two leases range from approximately $101,000 to $110,000. The operating lease provides the Board with incentives to be paid by the lessor, which reduces the base rental payments over the term of the leases. Generally accepted accounting principles require that rent expense be recognized equally over the term of the lease. This results in more rent expense in the early years of the leases. The difference between rent paid, and rent expense, along with the unamortized lease incentive is reflected as deferred rent and lease credits in the Statement of Net Assets Available for Plan Benefits. Monthly base rent expense over the terms of the lease and sublease is $96,000.

(5) FIDUCIARY INSURANCE

FERSA (5 U.S.C. § 8479(b)(1)) provides that the Executive Director may assess Federal agencies for the purpose of buying fiduciary insurance. The Executive Director exercised this authority in 1987 and required agencies to submit an amount equal to 1 percent of their contributions. Such sums were collected during 1987 and 1988 and invested to the extent not currently required to purchase fiduciary insurance. In February 1988, the Executive Director instructed agencies to discontinue the 1 percent fiduciary insurance contributions. The balance of funds available for the purchase of fiduciary insurance as of December 31, 1999, was $4,880,000, which has been invested in the same securities held by the G Fund and included in total investments on the accompanying Statement of Net Assets Available for Plan Benefits. The Board has determined that the current insurance reserve is adequate to fund coverage needs for the foreseeable future.